



Finance and Administration Committee Agenda Item 6b

May 16, 2017

Item Name: Treasury Management Reserve Policy Review

Program: Financial Office

Item Type: Action

Recommendation

The recommendation is for the Finance and Administration Committee (“Committee”) to approve the proposed amendments to the Treasury Management Reserve Policy (“Policy”) as part of the annual review required by the Policy.

Executive Summary

The Policy, which was last reviewed and approved in October 2015, defines the governing practices related to Treasury Management reserves and has been updated into the new standardized CalPERS policy template and revised to reflect reserve changes. The recommendation is for a two month reserve be established for the Legislators’ Retirement Fund (“LRF”) and a one month reserve be established for the Long Term Care Fund (“LTCF”) based on this year’s review. Reserves for the LRF and LTCF will manage potential funding risk if a stressed or crisis event were to occur. This Agenda Item puts forth the Policy to be reviewed by the Committee for approval.

Strategic Plan

This agenda item supports Goal B of the CalPERS 2012-2017 Strategic Plan, which is to cultivate a high-performing, risk intelligent and innovative organization.

Background

The Policy was approved by the Committee in October 2015 and was developed by Staff to govern the practices related to the establishment and oversight of such reserves set forth in the Treasury Management Policy. According to the Policy, reserves are “liquid assets dedicated to the payment of member benefits and other obligations during a stressed or crisis event”. The Policy also identifies which program requires a reserve and which do not based on Staff’s assessment of the relevant characteristics of the each fund.

Analysis

The Policy was reviewed to ensure it reflects the changing nature of CalPERS’ assets and investment programs, benefit, structural changes, and economic conditions. Two funds, the LRF and LTCF, were found to have inadequate Level I assets if a stressed environment were to occur. These findings were reported at the February 2017 Committee meeting, during the review of the Semi-Annual Treasury Analysis and Liquidity Status Report. An analysis was then completed to determine the appropriate reserve level for these funds.

The recommendation is for the Policy to be updated to include a reserve equal to two months coverage of benefit payments and program obligations for the LRF. The proposed reserve will ensure the fund can pay member benefits and organization obligations if a stressed or crisis event occurred for up to two months. The reserve will have an immaterial impact to fund performance and will not require any changes to the fund's asset allocation.

The recommendation is for the Policy to be updated to include a reserve equal to one month's coverage of expected program obligations for the LTCF. This reserve will ensure continuous payment of participant claims if a stressed or crisis event occurred. The proposed reserve will have an immaterial impact to fund performance and will not require any changes to the fund's asset allocation.

Budget and Fiscal Impacts

Not applicable

Benefits and Risks

The Policy provides a framework to identify and to mitigate risks early, to avoid future liquidity problems, to strengthen internal controls and to facilitate better decision-making. In addition, the Policy helps safeguard CalPERS against future market events and cash flow stresses that could jeopardize its ability to meet its obligations without interruption.

Attachments

Attachment 1 – Current version of Treasury Management Reserve Policy

Attachment 2 – Red-lined version of proposed changes to Treasury Management Reserve Policy

Attachment 3 – Final version of proposed changes to Treasury Management Reserve Policy

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